



Terrorism Risk Insurance Act of 2002

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Terror Risk Insurance Program

- TRIP is a temporary Federal system of shared public and private compensation for insured losses resulting from foreign acts of terrorism
 - **Ensures continued widespread availability of property and casualty insurance for terrorism risk**
 - **Provides transition period for private markets to stabilize, resume pricing, and build capacity while preserving State insurance regulation and consumer protection**
- Private insurance and asset markets, including markets for property and casualty insurance, are critical to economic growth because they spread the risk of both routine and catastrophic loss



Terrorism Risk Insurance Program Structure

- Three program years: 2003, 2004, 2005
- Mandatory participation of insurers during Program years
- Insurers must “make available” coverage for acts of terrorism during first two years of the Program
- By Sept. 1, 2004, and based on factors to be examined in a mandated Treasury study described below, the Secretary will decide whether the “make available” provision should be extended into 2005.



Terrorism Risk Insurance Program Structure

- Marketplace aggregate retention amounts and insurer deductibles increase over the life of the Program:

- 2003	\$10.0 billion	7% of premiums
- 2004	12.5 billion	10% of premiums
- 2005	15.0 billion	15% of premiums
- Marketplace aggregate retention amounts affect mandatory recoupment amounts
- Insurer deductibles are based on an insurer's direct earned premium for all property and casualty insurance policies



Terrorism Risk Insurance Program Structure

- Insurer exposure is equal to the insurer's deductible and 10% of insured losses in excess of the deductible
 - If an insurer had \$200 million in direct earned premiums in 2002, its deductible for 2003 would be equal to \$14 million, and 10 percent loss sharing would kick in above \$14 million in insured losses
- Annual Federal and insurer liability cap of \$100 billion
- No restrictions on rates or policyholder purchase decision



TRIA-Mandated Responsibility of Treasury for Information on Premiums

- The Secretary shall annually compile information on terrorism risk insurance premium rates of insurers for the preceding year ... To the extent that this information is not otherwise available to the Secretary, the Secretary may require each insurer to submit to the NAIC terrorism risk insurance rates...and the NAIC shall make such information available to the Secretary. The Secretary shall make [this] information available to Congress upon request.



TRIA-Mandated Responsibility of Treasury for Information on Market Conditions

- The Secretary ... shall assess the effectiveness of the Program and the likely capacity of the property and casualty insurance industry to offer insurance for terrorism risk after termination of the Program, and the availability and affordability of such insurance for various policyholders, including railroads, trucking, and public transit. The Secretary shall report the results of this study to Congress by June 30, 2005.



TRIA Information Collection Mandates will be Fulfilled through Corporate Surveys

- Surveys of corporations on the demand-side and supply-side of the commercial property and casualty insurance market are the primary vehicles through which the Office for Economic Policy will fulfill the TRIA mandates to collect information on premiums, market conditions, capacity, and the effectiveness of the program.



Consultation with Insurers and Other Industry Experts

- Large group of industry representatives, including Alliance of American Insurers, participated in day-long meeting on study design, at the Treasury Department, on January 30, 2003,
- Several industry representatives, including AAI, provided helpful comments on draft survey questionnaire
- Bids were sought from well-established survey contractors
- We have selected Westat to conduct the TRIA surveys
- Westat has contracted with Marsh to obtain further institutional expertise needed to refine questionnaires and identify points of contact



Overview of TRIA Surveys

- Surveys will be conducted at the corporate level after consultation with industry experts to determine appropriate points of contact
- Information to be collected on cost of terror risk insurance as a share of total risk insurance, other financial data, insurance limits, reinsurance, self insurance and risk management programs
- Policy data will be collected within broad lines
 - **commercial property**
 - **workers compensation**
 - **other casualty**



Overview of TRIA Surveys

- Each sampled company will be contacted three times (once per program year), to capture effects of changes in legislated insurer deductibles
 - **First wave will address 2002 benchmark and 2003**
 - **Second wave will address 2004**
 - **Last wave will collect and analyze 2005 data by June of 2005**
- Separate surveys of insurers and insureds
 - **Better information on relationship between terror risk insurance cost, limits, capacity and financial position**
 - **Better information on distribution of terror risk insurance cost and coverage for different categories of business**
 - **Better information on reasons for self-insurance when terror risk insurance is not purchased**



Overall TRIA Survey Design

- Data will be assembled at arm's length from government
- Publicly-available financial data and data filed with National Association of Insurance Commissioners (NAIC) will be merged with survey data to minimize respondent burden
- Multi-mode data collection for maximum scheduling flexibility
- All identifying information will be removed, transformed to ratios, or perturbed, prior to analysis by Treasury staff
- Only summary statistical data will be included in Treasury report



Survey of Insureds

- Nationally representative sample of corporations, partnerships, and state and local governments
- Information will be collected for broad industry groups, major region, employment and asset size, urban/non-urban headquarters
- Good representation for high-risk cities and properties, and for railroads, trucking, and public transit
- Questions on terror risk insurance uptake, price, exposure and loss control



Survey of Insurers

- Nationally representative stratified sample of suppliers of commercial property and casualty insurance
- Information will be collected by geographical region and asset size
- Policy data will be gathered by state and broad line of business
 - Property
 - Workers' compensation
 - Other casualty



Insurer Questionnaire Respondent Profile

- Corporate structure
- TRIA-eligible lines sold
- Business data
- Reinsurance
 - Share of total premiums ceded to reinsurers
 - Reinsurance for TRIA-eligible deductible and coinsurance
 - Other changes in insurance capacity



Insurer Questionnaire Policy Data

- State-level totals for workers compensation, other casualty and property lines
 - total number of policies
 - total premium
 - number of policies that include TRIA coverage
 - total premium on policies that include TRIA coverage
 - total TRIA premium on policies that include TRIA coverage
- Parallel questions for stand-alone terrorism risk



Insurer Questionnaire Probability and Cost of Future Terrorist Events

- Estimation Techniques Currently Employed
 - Company-generated terrorism computer models
 - Advisory organization loss costs
 - Modeling/projection by outside consultants
 - Other actuarial analyses
 - Professional judgment
 - Other



Insurer Questionnaire

Changes in Market Capacity

- Financing of terrorism risk
 - Self-financing (e.g., surplus)
 - Traditional reinsurance
 - Catastrophe bonds
 - Catastrophe swaps
 - Contingent surplus notes
 - Other
- Involvement with insurance producers
- Changes in loss control programs
- Expected change in price of terrorism coverage
 - **Assuming no TRIA-eligible event**
 - **Assuming TRIA-eligible events of various magnitudes**



Survey of Reinsurers

- All reinsurers operating within the US
- Westat developing questionnaire with Guy Carpenter
- Comparable to Insurer Survey
- Difficult to develop standardized questions because programs are negotiated



Complex Project with Tight Time Frame

- Data must meet OMB and Treasury data quality standards to be used for policy recommendations
 - Requires large, unbiased sample
 - Questions of interest require reference to detailed books and records
 - Confidentiality and burden are major concerns
- Rapid data processing at startup and completion



Full Participation is Essential

- Confidentiality safeguards are strong
- If your clients need information on their TRIA coverage, please assist them with data requests
- Questions on survey mechanics may be addressed to the Westat project director, Dr. David Marker: (301) 251-4398, or davidmarker@westat.com
- Summary of survey results will be available in Secretary's report to Congress



Further Background on Terror Risk Insurance Program

- Testimony by Deputy Assistant Secretary Mark Warshawsky:
<http://www.treas.gov/press/releases/po1050.htm>
- Remarks by Under Secretary Peter Fisher:
<http://www.treas.gov/press/releases/kd3810.htm>
- Remarks by TRIP Executive Director Jeff Bragg:
<http://www.treas.gov/press/releases/js626.htm>
- Treasury Terror Risk Insurance Program web page:
<http://www.treas.gov/offices/domestic-finance/financial-institution/terrorism-insurance/index.htm>